

**NORTH THURSTON SCHOOL DISTRICT NO. 3**  
**Thurston County, Washington**  
**September 1, 1995 Through August 31, 1996**

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**Schedule Of Findings**

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1. Public Funds Were Misappropriated

Our audit of the financial records of New Century High School revealed that at least \$17,178.16 in public funds was misappropriated by the former attendance secretary/registrar during the period September 1, 1992, through September 30, 1996. There were no federal funds involved in this case.

In September 1996, the director of financial services at North Thurston School District notified the Office of State Auditor of possible irregularities in cash receipting procedures at New Century High School and began an investigation of this matter. Their investigation revealed that the former attendance secretary/registrar misappropriated public funds during the period of her employment. During our audit, we reviewed the results of the district's investigation and agree with their findings and conclusions, except for the total amount of the loss. Our review disclosed additional revenue losses at New Century High School. These funds were misappropriated as described below.

The former attendance secretary/registrar took recorded cash receipts from a variety of revenue sources at New Century High School. Cash collections were simply not deposited in the district's bank accounts. In addition, three General Fund cash receipt books issued to this employee were either lost or destroyed prior to our audit. The schedule below summarizes these losses by source of revenue.

<u>Description</u>	<u>Amount</u>
Traffic Safety Fees	\$16,197.00
Petty Cash	106.21
Fees and Fines	174.95
Donation	150.00
Photography Class	<u>550.00</u>
Total Losses	<u>17,178.16</u>
Less Restitution	<u>(6,047.95)</u>
Net Loss of Funds	<u>\$11,130.21</u>

The former attendance secretary/registrar was solely responsible for General Fund activities at New Century High School. On September 24, 1996, she admitted to district management officials that she had misappropriated public funds during the period of her employment. She also subsequently confessed these activities to the Lacey Police Department. This employee resigned her employment at the district prior to the discovery

of these losses.

RCW 42.20.070 states:

**Misappropriation and falsification of accounts by public officer.**

Every public officer, and every other person receiving money on behalf or for or on account of the people of the state or of any department of the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town, or any school, diking, drainage, or irrigation district, who:

- (1) Shall appropriate to his or her own use or the use of any person not entitled thereto, without authority of law, any money so received by him or her as such officer or otherwise; or
- (2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him or her; or
- (3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account; or
- (4) Shall willfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive the same, or to such county, city, town, or such school, diking, drainage or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money received by him or her as such officer when it is a duty imposed upon him or her by law to pay over and account for the same, shall be punished by imprisonment in a state correctional facility for not more than fifteen years.

The following internal control weaknesses allowed these losses to occur without being detected in a timely manner by district management officials.

- a. There was an inadequate segregation of duties. Practically all of the accounting functions for General Fund activities at New Century High School were the sole responsibility of the former attendance secretary/registrar. However, there was no periodic management review or monitoring of the work performed by this individual which would accomplish the same objective as a segregation of duties between two or more employees.
- b. Deposits were not made intact daily.
- c. The district did not perform an analytical review of all cash receipts to periodically review the reasonableness of revenues from the schools. For example, no one independent of the attendance secretary/registrar verified that actual traffic safety fees collected at New Century High School agreed with the total revenue received for a specified period of time or that actual traffic safety revenue was comparable from one accounting period to the next.
- d. The district did not adequately monitor cash receipts, bank deposits, and

associated daily activity reports from the school to ensure that all funds were properly accounted for and controlled.

- e. The physical security at New Century High School was inadequate to properly protect accounting records and funds from loss or premature destruction. New Century and River Ridge High Schools employees occupy the same office space, and certain accounting records were commingled.

We recommend North Thurston School District seek recovery of the misappropriated \$11,130.21 and related audit/investigation costs from the former attendance secretary/registrar and its insurance bonding companies. We further recommend the Washington State Office of the Attorney General and the Thurston County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Bond coverage for district employees is as follows:

Insurer:	State Farm	United Pacific
Type of Policy:	Bonding	Crime Policy
Policy Number:	98-03-5569-7F	U262 37 11
Amount	\$100,000 (with \$1,000 deductible provision)	
	\$500,000 (with \$5,000 deductible provision)	
Period:	1/1/92-8/31/95	9/1/95-9/1/97

We also recommend the district review overall accounting controls at all schools, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.

#### Auditee's Response

*The District is in concurrence with the Finding as presented. The District offers the following information in response to the specific internal control weaknesses identified in the Finding.*

*The District will direct the Principal of New Century High School to take steps to ensure that duties are adequately segregated or periodically monitored by the Principal. New Century and River Ridge High School staff will be given technical assistance by the District office in locating separate and more secure physical locations for accounting records. The District will reinforce with New Century management that Board Policy 6210 required periodic review of financial records by Principals. Further, New Century staff will be warned again not to leave funds in desks or lockers. Finally, the District will hold New Century management accountable for ensuring that daily deposits are made as required by Board policy.*

*The District has implemented an improvement plan that requires staff from New Century high School to receive training. Some of that training has already been provided during the winter of 1997. In addition, New Century High School management has been requested to review job descriptions and related Board policies. The District, on February 7, 1997, requested the New Century High School Principal to develop a process/system designed to address the monitoring of fiscal operations at the school.*

*At the District level, fiscal staff has been directed to periodically perform analytical review of deposits. Furthermore, district staff will implement a receipt reconciliation process to monitor deposits from all schools. The District is presently reviewing districtwide accounting controls to provide a more effective method of internal controls. Additionally, intermittent unscheduled visits*

*will be made to buildings by district office finance staff to monitor compliance.*

*We appreciate the assistance that has been provided from the State Auditor's office and concur with your recommendation that the district seek recovery of lost funds. Law enforcement as well as the auditor's office have been working closely with the school district since the first day the district office officials became aware of the theft. It is our expectation that the Thurston County Prosecutor will take appropriate legal action including seeking recovery of financial losses.*

#### Auditor's Concluding Remarks

Based upon the district's response, it appears that adequate corrective actions have been or will be made. We will review the controls at New Century High School again during our next regular audit.

We would like to thank the staff of North Thurston School District for their assistance and cooperation throughout the course of the audit.